FULL YEAR 2021 FREQUENTLY ASKED INVESTOR QUESTIONS

How was the Group's financial performance in the year?

- The Group delivered a solid financial performance with continued business momentum. Statutory profit after tax was £5,885 million, benefitting from higher income and a net impairment credit given the improved macroeconomic outlook for the UK. In the fourth quarter of the year, statutory profit after tax was £420 million, a reduction on the run-rate in the first three quarters of 2021, primarily reflecting increased remediation and restructuring costs.
- Net income performance of £15,763 million was up 9 per cent year on year, and underlying net interest income of £11,163 million was up 4 per cent year on year. Net interest margin of 2.54 per cent was up 2 basis points compared to 2020. Average interest-earning banking assets were up 2 per cent on the prior year at £444.6 billion. Underlying other income of £5,060 million in 2021 was 12 per cent higher than in 2020.
- The Group's cost:income ratio remains strong at 56.7 per cent. Total costs of £8,930 million included; operating costs of £7,630 million, up 1 per cent given the accelerated rebuild of variable pay accompanied by continued strong cost management, and significantly higher remediation charges of £1,300 million.
- Asset quality remains strong, with sustained low levels of new to arrears during the year. Underlying impairment was a net credit of £1,207 million in the year, compared to a net charge of £4,247 million in 2020. The overall net credit in the year was driven by a £1,699 million release of expected credit loss (ECL) allowances based upon improvements to the macroeconomic outlook for the UK, given a stronger economic outlook than previously forecasted.
- The return on tangible equity for 2021 was 13.8 per cent (2020: 2.3 per cent), or 11.4 per cent (2020: 1.4 per cent) excluding the remeasurement of deferred tax assets. Earnings per share were 7.5 pence (2020: 1.2 pence).
- The Group's balance sheet reflects continued franchise growth during the year. Loans and advances to customers are up 2 per cent on the prior year at £448.6 billion, driven by strong growth in open mortgage book of £16.0 billion in the year, reflecting the strength of the UK housing market. Customer deposits were up £25.6 billion to £476.3 billion with continued inflows to the Group's trusted brands, driven by continued reduced levels of customer spending.
- The Group's CET1 capital ratio (after announced distributions) increased by 15 basis points to 16.3 per cent on a pro forma basis (31 December 2020: 16.2 per cent). The strong capital build enabled the Group to pay a total ordinary dividend for the year of 2p per share totalling £1.4 billion and announce a share buyback of up to £2 billion.

For more on our full year results, please see our FY 2021 News Release.

How do you expect the Group to perform going forward?

- As we look forward into 2022, we are seeing early recovery from the impacts of the coronavirus pandemic and the macroeconomic outlook is improving, supported by the successful vaccine roll out in the UK. Although the outlook remains uncertain regarding new virus variants and inflation, we are confident that the Group is well-placed to deliver increased returns whilst Helping Britain Prosper, as embodied in our new strategy.
- Based on our current macroeconomic assumptions, our 2022 guidance reflects confidence in the Group's business model and new strategy:
  - Banking net interest margin expected to be above 260 basis points
  - Operating costs of c.£8.8 billion on the new basis, with the increase from the 2021 equivalent (£8.3 billion) reflecting stable business-as-usual costs, incremental investment and new businesses
  - Asset quality ratio expected to be c.20 basis points
  - Return on tangible equity of c.10 per cent
  - Risk-weighted assets at the end of 2022 to be c.£210 billion
- Based on the Group's new strategy, our 2024 and 2026 guidance reflects focus on our growth potential, improved efficiency and realising the capabilities of our people, technology and data:
  - Return on tangible equity in excess of 10 per cent by 2024 and in excess of 12 per cent by 2026, as the full benefits of our investment are realised
  - Additional revenues of c.£0.7 billion by 2024 and more than double that of c.£1.5 billion by 2026
  - Business-as-usual costs flat in 2024 versus 2021, while costs increase only to finance new investment, enabling a cost:income ratio of less than 50 per cent by 2026
  - Asset quality ratio to be less than 30 basis points over 2022 to 2024
  - Capital generation of around 150 basis points per annum over 2022 to 2024, improving to 175 to 200 basis points by 2026. We are committed to returning excess capital to shareholders and expect to pay down to our target capital ratio by 2024

Can you tell me about the Group's new strategy?

- The Group's strong foundations have created distinctive competitive strengths in leading customer franchises with trusted brands, significant data assets and leading market shares. The Group has a strong balance sheet, disciplined risk management and an efficient business model, operating at scale with strong focus on cost discipline.
- Our purpose of Helping Britain Prosper drives our business model and strategic participation choices. The Group's new strategy has a clear vision to be a UK customer-focused digital leader and integrated financial services provider, capitalising on new opportunities, at scale. To this end we are embedding delivery of broader stakeholder outcomes in our strategy and the way we create value to be a truly purpose-driven organisation.
- We will deliver for all our stakeholders by helping build an inclusive society and supporting the transition to a low carbon economy. Our efforts on the former will be focused on improving access to quality housing, promoting financial inclusion and education, enabling regional development and creating a more inclusive and diverse workforce with ambitious targets. To support the transition to a low carbon economy, we are reinforcing our prior commitments, reducing the carbon emissions we finance by more than 50 per cent by 2030, on the path to net zero by 2050 or sooner, with our own operations being net zero by 2030 and further sustainability outcomes embedded across business priorities.
- Through our new strategy, we will transform our business, creating higher, more sustainable value for all stakeholders. We will drive revenue growth and diversification across all our main businesses, focusing on strengthening cost and capital efficiency, together with leveraging an enabling platform which maximises the potential of people, technology and data to support our business ambitions. These strategic priorities are supported by incremental investment of c.£3 billion over the next three years, and a total of c.£4 billion over five years.
- Our strategy will enable the Group to deliver higher, more sustainable, returns and capital generation. The Group is targeting a return on tangible equity in excess of 10 per cent by 2024 and in excess of 12 per cent by 2026 as the full benefits of our investment are realised. This will be achieved by additional revenues of c.£0.7 billion by 2024 and more than double that of c.£1.5 billion by 2026. Our strong focus on cost discipline will ensure that we keep business-as-usual costs flat in 2024 versus 2021, whilst costs increase only to finance new investment, enabling a cost-income ratio of less than 50 per cent by 2026. The increased profitability resulting from the strategy will support capital generation of around 150 basis points per annum over 2022 to 2024, improving to 175 to 200 basis points by 2026. We are committed to returning excess capital to shareholders and paying down to our target capital ratio by 2024.

Isn't this just the same as previous strategy announcements? What is different?

- Whilst our new strategy builds on our strong foundations, there is a significant shift in focus towards growth and revenue diversification. We will maintain our disciplined focus on cost and capital efficiency, which has been a deliberate focus in recent years and has placed us in a strong position.
- Our strategy will address key challenges to ensure that the Group maintains its competitive position and delivers sustainable long-term returns in the face of a challenging external environment and changing customer expectations.
- We will drive revenue growth and diversification by deepening and integrating our customer relationships with a distinctive banking, wealth and insurance offering. We will strengthen our cost and capital efficiency by building new business models, delivering end-to-end step change. We will create an enabling platform which combines people, data and technology, driving innovation and growth via third party distributors and platforms.
- In doing so, our RoTE is expected to rise to more than 10 per cent by 2024 and in excess of 12 per cent by 2026, our cost:income ratio is expected to fall to less than 50 per cent by 2026, and strong capital generation driven by increased profitability will enable us to return capital to shareholders, paying down to to our target capital ratio by 2024.

What is your dividend policy?

- The Group has a progressive and sustainable ordinary dividend policy, whilst maintaining the flexibility to return surplus capital through buybacks or special dividends.

What is a share buyback and how might I benefit?

- A share buyback (also known as a share repurchase) is a form of returning surplus capital held by a company to shareholders involving the purchase by a company of its own shares.
- The effect of a buyback is to reduce the total number of shares in issue. It is expected that shareholders who retain their shares in the company will benefit from the share buyback programme as they will own an increased proportion of the total shares in the company and should therefore see an increase in the dividend per share going forward given the reduced number of shares in issue.

How can I participate in the share buyback programme?

- The share buyback programme does not work by buying individual investors' shares, regardless of whether they are large or small holders. The buyback operates through the bank's brokers buying shares on the open market, as any investor can do every day. Once the brokers have bought the shares in the market, they transfer them to the Group treasury function, who then cancel those shares.
- If an investor wished to sell their shares, the appropriate way to do so would be on the open market, in the normal way.

Why are you undertaking a buyback rather than a special dividend?

- 2021 distributions total up to £3.4 billion, comprising an ordinary dividend totalling £1.4 billion and a share buyback of up to £2 billion. This represents a very significant return to shareholders and is equivalent to around 10 per cent of the Group's market capitalisation (on 31 December 2021).
- The Board's current preference is to return surplus capital by way of a buyback programme given the amount of surplus capital, the normalisation of ordinary dividends and the flexibility that a buyback programme offers. This approach is consistent with UK and European banking peers, who have also returned capital in the form of dividends and share buybacks.
- Going forward, the Board will continue to consider surplus capital distributions at each year end and will consider both share buybacks and special dividends.

How did you perform against your Helping Britain Recover commitments for 2021?

- As a result of the pandemic and our unique position at the heart of the UK economy, our priority for 2021 was to focus on Helping Britain Recover.
- We committed to working with our stakeholders in five areas where we could make the most difference to the recovery of the UK, delivering strong performance against our commitments.

1. Help rebuild households' financial health and wellbeing
2. Support businesses to recover, adapt and grow
   - We have supported over 93,000 start-ups and small businesses with online support, business advice and business banking accounts.
3. Expand availability of affordable and quality homes
   - Provided £16.3 billion of lending to first-time buyers in 2021, exceeding our target of £10 billion.
4. Accelerate the transition to a low carbon economy
   - Expanded the funding available under the Group's discounted green finance initiatives from £3 billion to £5 billion to support businesses as they transition to a low carbon economy
   - Became the first major pensions and insurance provider to target halving the carbon footprint of our investments by 2030 on our path to net zero by 2050 and published the Scottish Widows Climate Action Plan
5. Build an inclusive society and organisation
   - Progressed against our new aspirations for our leadership team to reflect the society that we serve, of 50 per cent women, 13 per cent Black, Asian and minority ethnic colleagues and 3 per cent Black heritage colleagues in senior roles by 2025, achieving progress to 37.7 per cent, 8.8 per cent and 1 per cent respectively

- These are just some of the highlghts. You can read more about how we delivered against our Helping Britain Recover commitments in the 2021 Lloyds Banking Group ESG Report available on the Group webpage.

Can you give an update on your ambitions to support the transition to a low carbon economy?

- We continue to make progress towards our climate ambitions and in working with our customers, government and the market to support the UK's transition. For example:
  - Published new ambitions for three of our highest emitting sectors: motor (Retail), oil and gas and thermal coal, which complement our existing ambition for the power sector
  - Scottish Widows' investment in the Climate Transition World Equity Fund (co-created with BlackRock) reached more than £5 billion
  - Joined Powering Past Coal Alliance, confirming our commitment to a full exit from thermal coal by 2030
  - Funded one in ten new electric cars on the road today

  - Completed our first three net zero carbon operations branches
  - Remained Carbon Trust Standard certification holders for carbon reduction for the twelfth consecutive year
  - Published our inaugural Climate Report containing our disclosures aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations
  - Joined the Net Zero Banking Alliance (NZBA) as one of its founding members in April 2021.
- Our new strategy includes a number of stakeholder outcomes that will help finance the transition of our customers for green mortgages, electric vehicle financing, sustainable finance for businesses and investments in climate aware investment strategies through Scottish Widows.
- To continue to drive progress, we have also included specific measures aligned to our environmental sustainability ambitions in our senior executive performance measures in our Group Balanced Scorecard.

What are your aspirations for the Schroders joint venture?

- We are working hard to help people save for the future and in 2019 in partnership with Schroders, we launched a new financial planning joint venture (JV) company, Schroders Personal Wealth (SPW).
- LBG owns 50.1% of SPW, while Schroders owns 49.9%.
- SPW harnesses the unique strengths of both groups to deliver a market-leading financial planning and wealth solutions to more people across the UK. Our ambition over the medium term is for SPW to become a top three UK financial planning business.
- SPW sits alongside Schroders' Cazenove business (in which LBG owns a ~19% stake), which provides bespoke investment management services to the Group's high net worth customers and charity clients.

Who are Embark? When can we expect a material contribution from Embark? What about Citra? Should we believe the media stories?

- Embark Group (Embark), is a fast growing investment and retirement platform business. Embark enhances the Group's capabilities to address the attractive mass market and self-directed Wealth segment, completing the Group's Wealth proposition. Embark will enable us to re-platform the Group's pensions and retirement proposition, delivering a market-leading platform for intermediaries and significantly strengthening the Group's offering in Retirement, an important growth market.
- The Group completed the acquisition of Embark early in 2022, contributing c.£37 billion of AuA on behalf of c.354,000 consumer clients. This acquisition is important as it provides a digital, mass market, direct-to-consumer proposition, complementing the Group's existing advice offerings via Schroders Personal Wealth and Cazenove Capital.
- We expect Embark to make a material contribution to our Insurance business from this year (2022). The transaction is not expected to have an immediate material financial impact at the Group level but will provide significant growth opportunities: Bringing Embark into the fold will enable our ambitious plans for our mass-market investment offering.
- We also plan to accelerate our plans to modernise and digitise Scottish Widows' retirement proposition, joining forces with the expertise from Embark and use of Embark's technology.
- With Citra we aim to support the transition of the UK's private rented sector to high quality and sustainable housing. LBG has proven capabilities to succeed in this area with strong understanding of the UK property market and client relationships with industry players. We are targeting measured growth and will acquire properties on a test-and-learn basis – no commitment on size as we are learning.

How are you addressing the competitive threat posed by the rise of fintechs and challenger banks?

- While competitive threats are real, we remain able to compete effectively in the market, including against fintechs and challenger banks, with our large and loyal customer franchise, a broad product suite, and profitable businesses with positive cash flow which allows sustained, through-the-cycle investments to improve our customer proposition.
- We are in a strong position to compete effectively in the market, not least through a leading digital business, underpinned by our robust UK focused franchise and multi-brand model.
- Neobanks lack product breadth and all channel capability, which limits appeal given all start-ups have to spend significant money to acquire customers, whereas we already have 18.3 million digital customers. Our challenge is to create the digital capability to offer the same easy, convenient and personalized experiences. We already have the skills to do this and can replicate success in these new areas.

- Our new strategic ambitions will create new strengths with innovative propositions on top of our strong position, including with expanded product offerings ancillary offers and digital journeys. We continue to build relationships with a number of fintechs to ensure we are at the forefront of emerging technologies and modern engineering techniques.

How do you expect IFRS 17 to impact profit recognition, the economic value and capital position of the Group?

- IFRS 17, an accounting standard that will be effective from 1 January 2023, impacts the phasing of profit recognition for insurance contracts. Upon implementation, the Group's insurance-related retained earnings will be restated and the reporting of insurance new business revenue within other income will be spread over time as the Group provides service to its policyholders (versus recognised up front under current accounting standards), with the quantum and timing of the impact dependent on, inter alia, the amount and mix of new business and extent of assumption changes in any given year following implementation.
- Reduction in the Group's shareholders' equity from, inter alia, the removal of value in force from the Insurance business, remeasurement of insurance liabilities and the creation of a contractual service margin (CSM) liability, is expected to drive a mid-single digit pence per share reduction in the Group's tangible net asset value.
- The cash flow and economic value generated by the Group's Insurance business does not change. There will be no impact on the Group's or the Insurance business' capital position, nor the ability of Insurance to pay dividends to Group. Following implementation, recognition of Insurance income will be more stable.

Can you comment on how your sensitivity has been calculated and how it will impact the Group? Why does your sensitivity differ so much to your peers, e.g. Barclays?

- LBG’s illustrative disclosure is to an instantaneous parallel shift in interest rate curves.
- The net interest income impact from the shift is driven by structural hedge maturity reinvestment and benefit on certain deposit balances. The actual impact will also depend on the prevailing regulatory and competitive environment at the time. This sensitivity is illustrative and does not reflect new business margin implications and/or pricing actions, other than as outlined. In reality, we’d also be taking management actions, not reflected in our analysis.
- The following assumptions have been applied: (i) illustrative pass-through assumption of 50 per cent on administered deposits (those in which the Group can manage the deposit rate); (ii) a static balance sheet (31 December 2021), (iii) no impact on fixed rate mortgages i.e. maturing business reinvested at same margins. Hence does not capture any adverse impacts on mortgage pricing / NB margins if increased swap rates are not fully passed on to customer rates.
- Our sensitivity analysis shows an illustrative c.£200 million additional NII from a 25bps rate increase in Y1, assuming a simple 50 per cent pass through.

FORWARD LOOKING STATEMENTS

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to Lloyds Banking Group plc together with its subsidiaries (the Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, ‘believes’, ‘achieves’, ‘anticipates’, ‘estimates’, ‘expects’, ‘targets’, ‘should’, ‘intends’, ‘aims’, ‘projects’, ‘plans’, ‘potential’, ‘will’, ‘would’, ‘could’, ‘considered’, ‘likely’, ‘may’, ‘seek’, ‘estimate’, ‘probability’, ‘goal’, ‘objective’, ‘deliver’, ‘endeavour’, ‘prospects’, ‘optimistic’ and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Group’s future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; the Group’s ESG targets and/or commitments; statements of plans, objectives or goals of the Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group’s credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; potential changes in dividend policy; the ability to achieve strategic objectives; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; instability in the global financial markets, including within the Eurozone, and as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Group’s ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Group; projected employee numbers and key person risk; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Group’s control. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC’s website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Banking Group plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. 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